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PANEL OF EXTERNAL AUDITORS OF THE UNITED NATIONS, THE SPECIALISED AGENCIES AND THE INTERNATIONAL
ATOMIC ENERGY AGENCY
NEW YORK HEADQUARTERS

29 November 2022

His Excellency
Mr. António Guterres
Secretary-General of the United Nations
United Nations, NY 10017

Excellency,

Meeting of the Panel of External Auditors, 28-29 November 2022

1. The Panel of External Auditors held its sixty-second regular session as a hybrid session hosted from the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) at Santiago, Chile from November 28-29th, 2022. In its deliberations, the Panel considered the work of the Technical Group, which met from November 23-25th, 2022.

2. The Panel very much welcomed the comprehensive response received from you in response to its letter last year. The Panel's letter provides an opportunity to bring matters of concern to your attention in your role as Chair of the United Nations System Chief Executives Board for Coordination (CEB). Your response gives the Panel confidence that the issues it highlights are being considered within the system and informs it of the planned response. The agreement for this correspondence to be made publicly available has further strengthened the value which can be achieved from the exchange, and the way in which the Panel can add value to your transparency and accountability agenda. The Panel looks forward to your response once again, and to being available to you and the CEB's wider network, at a working level, to engage on the areas highlighted in this year's letter.

Climate Change

Emergency coordinating function to combat climate change

3. The global framework for combating Climate Change is complex and multi-faceted involving 17 Sustainable Development Goals, 169 targets and 248 indicators. Additionally, there are Nationally Determined Contributions that include commitments from 194 member states. Steering and monitoring these frameworks involves several UN entities such as UN DESA, UNFCCC, WMO, UNEP, UNDP, UNDRR, etc. This results in competing priorities and processes with time, expertise and funds. Given the climate change challenges and the need to prioritise the most impactful targets, the Panel noted the need for urgent action to ensure risk-based coordination is established to enhance effective budgeting, monitoring, and reporting of the most critical Climate specific goals to better support the Secretary-General.

Sustainability Reporting

4. While the Panel noted the efforts of the UN entities in a variety of sustainability initiatives and non-financial reports, it continued discussing the necessary important developments on this matter in UN entities to combat climate change. In demonstrating its commitment to sustainability reporting, and following your responses to our observations last year, the Panel felt it was important for the system to develop and report on an agreed suite of measurable and challenging sustainability targets for all UN entities. The International Public Sector Accounting Standards Board is likely developing public sector specific guidance on sustainability reporting, which the Panel will further consider when it has been finalised.

Role of Supreme Audit Institutions (SAI)

5. As Supreme Audit Institutions, Panel Members can play a major role in providing assurance to the Climate Change Framework and are collaborating on action plans to look at national responses to climate change and wider SDG implementation, recognising the importance of these issues.

Management Issues

Gender Equality (SDG 5)

6. The Panel noted that there are inadequate oversight and validation processes employed by the organizations to determine how it is progressing towards gender equality and the empowerment of women. The Panel encourages UN Organizations to revisit the reporting mechanisms on Gender Equality (SDG 5) for robust and coherent reporting on the achievement of these targets.

Projects and Implementing Partners (IPs)

7. The Panel has observed varying practices on evaluation and considers that all system entities should adopt a robust risk-based framework for Implementing Partner monitoring and project evaluation.

8. Panel Members continue to highlight weaknesses in the management of Implementing Partners, particularly control and monitoring deficiencies, in their annual audit reports. Verification and independent assurance activities on the amount transferred to Implementing Partners are not sufficient nor the result of a risk-based analysis. Acknowledging the variety of IP risk management in UN entities, the Panel considers it crucial for the UN system to enhance the effectiveness of the control and monitoring system in this area.

Knowledge management

9. Panel Members identified knowledge management as an important issue, and one which they consider requires greater attention. Effective knowledge management can support a more agile workforce and create efficiencies by learning from previous experience. To have good knowledge management within entities it is important to have strategies, to ensure a coherent approach, aligned to the needs of the organization. Such strategies need to identify the knowledge needed and the systems and processes to create, curate, retain and access the identified knowledge. Panel Members noted that there is no consistent UN system wide approach to this

issue. The Panel considers this an important area where the system could work together to develop a more common approach to good practice and to better leverage the power, both within and across the system, to learn lessons and gain efficiency.

Development reform

10. Beyond the issue of common back offices, the Panel notes the demonstrable progress and the challenges faced by development reform implementation. It is key that the UN, and especially UNDP, better define and streamline their specific value-addition in this field, considering the broader UN mandate. Another challenge relates to issues in meeting the commitment under the funding compact. If this is not resolved, recent progress on the Resident Coordinator system and the reforms more broadly could easily be undermined. This must be addressed urgently and emphasizes the importance of the Secretary-General review of the RC system and its funding.

Financial Issues

11. The Panel discussed the consistent application of standards with the UN Task Force on Accounting Standards representatives and took the opportunity to reiterate that audits must be judged in the context of the individual organization and its operating modalities; therefore, not all judgements will appear to be the same. The Panel reiterates the offers made over several years, to work collectively with the CEB committees and networks to enhance understanding of how the system is approaching the adoption and consistent application of standards. The Panel heard how the Task Force is working with the IPSAS Board to develop application guidance. The Panel wants to agree a mechanism to engage as external auditors, before any application guidance is finalised, especially in respect of new standards. This will ensure guidance reflects the observations and concerns of the systems' external auditors before the guidance is implemented.

12. During its meeting, the Panel considered many financial reporting issues that it believes would benefit from further collective engagement. These specifically included the application guidance on new standards on leasing and financial instruments; classification of employee benefits; disclosures related to pooled treasury systems and their presentation for both the entity and those using their services; and capitalisation thresholds and their application across entities. The Panel considered that there could be benefits in having a clearer and more consistent approach to ethical investment across the system, recognising that risk appetites would need to reflect the circumstances of each entity. However, the Panel considered it important that the system was able to demonstrate that its approach was consistent with the principles underlying the SDGs.

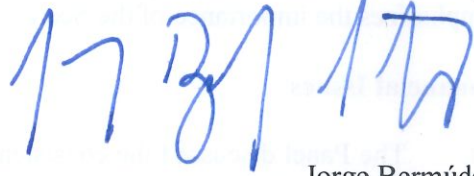
13. The Panel also highlighted its continued concerns around the transparency of cost recovery policies, and the variable approach to tracing mechanism for service costs. This has impacts across the entities and their reserves as well as the regular budget formulation and execution.

Digital issues

14. Panel Members have identified the need for digital transformation and that these programmes create both opportunities and challenges for organisations. Digital risks have been exacerbated as cyber threats and IT security risks have been heightened by the greater use of IT due to the impacts of the Covid-19 Pandemic. Several system audits have identified clear IT

security threats, which have emphasised the need for continued vigilance and the importance of using accepted IT Security Frameworks, such as the ISO 27000 series. It is important that investments made in these areas are used to combat threats. Panel Members have stressed the importance of sufficient resources being deployed to mitigate these threats. It also noted that digital transformations are taking place within the system, and emphasised the importance of investments demonstrating their cost-effectiveness and their linkage to business objectives. The Panel considers that such transformation programmes should adopt recognised and systematic frameworks, such as the common IT Governance Frameworks COBIT.

Yours sincerely,



Jorge Bermúdez
Comptroller General of the Republic of Chile
Chairman of the United Nations Panel of External Auditors

cc: Mr. Courtenay Rattray, Chef de Cabinet.
Ms. Catherine Pollard, Chair, HLCM
Panel Members
Ms. Anjana Das, Executive Secretary, UNBoA & Panel of External Auditors